

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>E.U.P. Transportation Authority</i>	County <i>Chippewa</i>
Audit Date <i>09-30-04</i>	Opinion Date <i>12-08-04</i>	Date Accountant Report Submitted to State: <i>March 25, 2005</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <i>Anderson, Jackman &amp; Co., P.C.</i>			
Street Address <i>16978 S. Riley Avenue</i>	City <i>Lincolne</i>	State <i>MI</i>	ZIP <i>49188</i>
Accountant Signature <i>Anderson Jackman &amp; Co P.C.</i>			

**EASTERN UPPER PENINSULA TRANSPORTATION AUTHORITY**

**FINANCIAL STATEMENTS**

September 30, 2004

**EASTERN UPPER PENINSULA TRANSPORTATION AUTHORITY**

**BOARD OF DIRECTORS**

Frank Sasso  
Chair

Aaron Hopper  
Secretary/Treasurer

Ted Postula  
Trustee

Rodney Richards  
Trustee

Dennis Robinson  
Trustee

**ADMINISTRATION**

Charles Moser  
Executive Officer

G. Akemi Gordon  
Finance Director

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Eastern Upper Peninsula  
Transportation Authority  
4001 I-75 Business Spur  
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the business-type activities, of the Eastern Upper Peninsula Transportation Authority as of and for September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Eastern Upper Peninsula Transportation Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Eastern Upper Peninsula Transportation Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments as of October 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2004, on our consideration of the Eastern Upper Peninsula Transportation Authority’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis on page 3 and supplemental schedules are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 8, 2004

## **Management's Discussion and Analysis**

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# Eastern Upper Peninsula Transportation Authority

Management's Discussion and Analysis  
September 30, 2004

## Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

## The Authority as a Whole

The Authority's combined net assets decreased 1.7% from a year ago decreasing from \$10,039,162 to \$9,868,714. The decrease in net assets can be attributable to utilizing a portion of the reserved funds for the construction of a permanent cell structure on the Sugar Island dock. Although the Michigan Department of Transportation funds 90% of this project, the Authority is required to match 10% of the cost.

The Authority implemented GASB-34 accounting procedures for the period beginning October 1, 2003. A comparative analysis will be performed next year.

In a condensed format, the table below shows the net assets of Eastern Upper Peninsula Transportation Authority.

	Business-Type Activities 2004
Current Assets	\$ 926,240
Noncurrent Assets	<u>9,561,964</u>
Total Assets	<u>\$ 10,488,204</u>
Other Liabilities	226,270
Long-Term Debt Outstanding	<u>393,220</u>
Total Liabilities	<u>619,490</u>
Net Assets	
Invested in Capital Assets - Net of Debt	9,315,722
Unrestricted	<u>552,992</u>
Total Net Assets	<u>\$ 9,868,714</u>



# Eastern Upper Peninsula Transportation Authority

## Management's Discussion and Analysis September 30, 2004

The current level of unrestricted net assets for our business-type activities stands at \$552,992, or about 18% of expenses.

Net Assets of the business-type activities decreased approximately 1.7%.

The following table shows the activities of the Authority.

	Business-Type Activities <u>2004</u>
Operating Revenues	
Fares	\$ 1,220,186
Non-Operating Revenues	
Local	35,460
State	1,315,827
Federal	51,633
Capital Match	32,139
Capital Grants	<u>334,380</u>
Total Revenues	<u>2,989,625</u>
Program Expenses	
Transportation	<u>3,160,073</u>
Total Expenses	<u>3,160,073</u>
Change in Net Assets	<u><u>\$ (170,448)</u></u>

# **Eastern Upper Peninsula Transportation Authority**

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**Management's Discussion and Analysis  
September 30, 2004**

## **Business-Type Activities**

The Authority's total business-type revenues decreased by approximately \$79,288. A majority of the Authority's revenue is tourist and weather driven. The decrease in revenue can be attributable to both of these factors.

Expenses increased by about \$17,089 during the year. This was primarily the result of an increase in depreciation expense.

## **Capital Asset and Debt Administration**

At the end of 2004, the Authority had \$9,315,722 invested in a broad range of capital assets, including ferry boats, docks, buses, machinery and equipment.

## **Economic Factors and Next Year's Budgets and Rates**

The Authority is in a budget battle from year to year, primarily with its bussing operations. The Authority receives state financial assistance under provisions of Act 51 whose revenue stream is funded by the Comprehensive Transportation Fund (CTF). With increased expenses and reduced state and local funding, the Authority will be taking the necessary measures to operate its bussing and ferry operations under a balanced budget.

## **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact our office at 906-632-2898.

## **Basic Financial Statements**

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# Eastern Upper Peninsula Transportation Authority

## Statement of Net Assets September 30, 2004

### ASSETS

**Current Assets:**

Cash and Equivalents (Note 3)	\$ 810,910
Due from State of Michigan (Note 18)	43,101
Accounts Receivable	61,205
Prepaid Expenses	8,614
Other Assets	<u>2,410</u>

TOTAL CURRENT ASSETS 926,240

**Noncurrent Assets:**

Capital Assets, (Net of Accumulated Depreciation)	<u>9,561,964</u>
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TOTAL ASSETS \$ 10,488,204

### LIABILITIES AND FUND EQUITY

**Current Liabilities:**

Accounts Payable	\$ 80,434
Current Portion of Note Payable (Note 6)	37,124
Current Portion of Accrued Compensated Absences (Note 5)	13,972
Accrued Payroll and Related Liabilities	<u>94,740</u>

TOTAL CURRENT LIABILITIES 226,270

**Noncurrent Liabilities:**

Note Payable – Long-Term Portion (Note 6)	209,118
Deferred Revenue (Note 17)	2,778
Accrued Compensated Absences (Note 5)	<u>181,324</u>

TOTAL NONCURRENT LIABILITIES 393,220

TOTAL LIABILITIES 619,490

**Net Assets:**

Invested in Capital Assets, (Net of Debt)	9,315,722
Unrestricted	<u>552,992</u>

TOTAL NET ASSETS 9,868,714

TOTAL LIABILITIES AND NET ASSETS \$ 10,488,204

The accompanying notes are an integral part of these financial statements.

# Eastern Upper Peninsula Transportation Authority

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## Statement of Revenues Expenses and Changes in Net Assets For the Year Ended September 30, 2004

### Operating Revenues:

Schedule 1	\$ <u>1,220,186</u>
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### Operating Expenses:

Schedule 1	<u>3,160,073</u>
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Operating Income (Loss)	(1,939,887)
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### Nonoperating Revenues:

Local (Schedule 1)	35,460
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State and Federal (Schedule 1)	1,367,460
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Capital Match	32,139
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Capital Grants	<u>334,380</u>
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Change in Net Assets	(170,448)
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Net Assets – October 1, 2003	<u>10,039,162</u>
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Net Assets – September 30, 2004	<u>\$ 9,868,714</u>
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The accompanying notes are an integral part of these financial statements.

# Eastern Upper Peninsula Transportation Authority

## Statement of Cash Flows For the Year Ended September 30, 2004

### Cash Flows from Operating Activities:

Receipts from customers	\$ 1,277,196
Payments to supplies	(761,153)
Payments to employees	(1,888,498)
Other receipts (payments)	<u>89,705</u>

Net Cash Provided (used) by Operating Activities (1,282,750)

### Cash Flows from Capital and Related Financing Activities:

Capital grant funds received to acquire property and equipment	334,380
Net acquisitions of property and equipment	(334,888)
Cash proceeds from the sale of property	4,460
Interest and surcharge allocation to local ferry capital match	61,963
Local share of capital acquisitions	(29,834)
Principal payments	(35,697)
Local sources	35,460
Federal and state sources	<u>1,367,460</u>

Net Cash Provided (used) by Capital and Related Financing Activities 1,403,304

Net Cash Provided (Used) – All Activities 120,554

Cash and Cash Equivalents at Beginning of the Year 690,356

Cash and Cash Equivalents at End of Year \$ 810,910

Interest Paid \$ 12,587

### Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:

Operating Income (Loss) \$ (1,939,887)

Adjustments to reconcile operating income to net cash  
provided by operating activities:

Depreciation	497,126
(Gain) loss on disposal of property	(4,460)

### Change in Net Assets and Liabilities:

(Increase) decrease in accounts receivable	109,445
(Increase) decrease in due from State of Michigan	(39,077)
(Increase) decrease in prepaid expenses	42,228
(Increase) decrease in other assets	1,617
Increase (decrease) in accounts payable	35,649
Increase (decrease) in accrued liabilities	28,157
Increase (decrease) in deferred revenue	(22,443)
Increase (decrease) in compensated absences	<u>8,895</u>
Total adjustments	<u>657,137</u>

Net Cash Provided (used) by Operating Activities \$ (1,282,750)

The accompanying notes are an integral part of these financial statements.

## **Notes to the Financial Statements**

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Eastern Upper Peninsula Transportation Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Authority:

### **A – Reporting Entity:**

#### **Financial Reporting Entity**

The Authority was incorporated on March 15, 1975, by Chippewa and Luce Counties, Michigan, under provisions of Act No. 55, of 1951, as amended, for the purpose of acquiring, owning and operating a public transportation system within the boundaries of the participating counties. The Authority's status as a separate public body corporate was reaffirmed on March 18, 1980 when the participating counties enacted an inter-local agreement under the provision of Act 7, Public Acts of 1967, as amended.

The financial statements of the Authority include the following operations: St. Mary's River Ferry System, Rural Bus Program, and the internal cost center (administration) that supports those operations. The operations listed above are included because the Authority has direct oversight responsibility over each operation.

### **B – Basic Financial Statements:**

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities rely to a significant extent on fees and charges for support.

### **C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All other revenue items are considered to be available only when cash is received by the government.



## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Business-Type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **D - Assets, Liabilities, and Net Assets or Equity**

Capital Assets – Capital assets, which include property, plant, and equipment, are reported. Accordingly, all assets associated with their activity are included on the balance sheet with reported fund equity (net total assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation – Property, plant and equipment is depreciated using the straight-line method over the following useful live.

Docks	40 years
Ferries	10 years
Equipment	3-10 years
Building improvements	40 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Accumulated Unpaid Vacation, Sick Pay and Other Employee Benefits – Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposit cash in savings, money market accounts, and certificates of deposit. For purposes of the statement of cash flows, the propriety fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. A budgetary comparison schedule is not present as it is not legally required.

Budget - The Authority follows these procedures in establishing budgetary data:

- a. Authority administration prepares and submits to the Authority Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenditures and means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP).
- b. The Authority Board formally adopts the finalized operating budget at a normal public meeting held prior to the commencement of the fiscal year.
- c. Authority administration is authorized to transfer budgeted amounts between line items within departmental budgets with post transfer Board approval.
- d. Formal budgetary integration is employed as a management control device during the year.
- e. Budgetary authority lapses at year-end.
- f. Budgeted amounts are as originally adopted, with the exception of administration induced transfers which were not material in relation to the budget on the whole.

## NOTE 3 - CASH AND EQUIVALENTS

### Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

# Eastern Upper Peninsula Transportation Authority

Notes to Financial Statements  
September 30, 2004

## NOTE 3- CASH AND EQUIVALENTS (Continued)

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in several local financial institutions. All deposits are carried at cost.

<u>Balance Sheet Account</u>		<u>Cash Items</u>	
Cash and equivalents	\$ 810,910	Office fund	\$ 800
		Working fund	950
		Checking	202,350
		Savings	368,762
		Certificates of Deposit	238,048
	<u>\$ 810,910</u>		<u>\$ 810,910</u>

The deposit risk disclosures as required by Governmental Accounting Standards Board (GASB) Statement No. 3 are summarized as follows:

	<u>Insured</u>	<u>Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Checking and Savings	<u>\$ 224,749</u>	<u>\$ 580,438</u>	<u>\$ 805,187</u>	<u>\$ 809,960</u>

The Authority's deposits are 28% covered by FDIC insurance.

## NOTE 4 - CAPITAL ASSETS

Capital Assets activity for the current year was as follows:

<b>Business-Type Activities:</b>	<u><b>Beginning Balances</b></u>	<u><b>Increases</b></u>	<u><b>Adjustments / Decreases</b></u>	<u><b>Ending Balances</b></u>
<i>Capital Assets Being Depreciated:</i>				
EUPTA Assets	1,805	-	-	1,805
Busing Assets	654,910	36,035	120,690	570,255
Ferry Assets	14,128,147	141,749	-	14,269,896
Administrative Assets	12,388	-	-	12,388
Construction in Progress	-	157,104	-	157,104
Subtotal	<u>14,797,250</u>	<u>334,888</u>	<u>120,690</u>	<u>15,011,448</u>

# Eastern Upper Peninsula Transportation Authority

Notes to Financial Statements  
September 30, 2004

## NOTE 4 - CAPITAL ASSETS (Continued)

Business-Type Activities	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments / Decreases</u>	<u>Ending Balances</u>
<i>Less Accumulated Depreciation for:</i>				
EUPTA Assets	1,021	186	86	1,293
Busing Assets	379,112	87,245	(115,690)	350,667
Ferry Assets	4,681,902	409,517	(5,114)	5,086,305
Administrative Assets	<u>11,041</u>	<u>178</u>	<u>-</u>	<u>11,219</u>
Subtotal	<u>5,073,076</u>	<u>497,126</u>	<u>(120,718)</u>	<u>5,449,484</u>
Net Capital Assets being Depreciated	<u>9,724,174</u>	<u>(162,238)</u>	<u>28</u>	<u>9,561,964</u>
Total Capital Assets – Net of Depreciation	<u>\$ 9,724,174</u>	<u>\$ (162,238)</u>	<u>\$ 28</u>	<u>\$ 9,561,964</u>

## NOTE 5 - LONG-TERM DEBT

Recognition is made for the liability existing for unused benefits at September 30, 2004 as follows:

Vacation	\$ 67,303
Sick Leave	106,745
Accrued interest on outstanding sick leave balance (ferry)	<u>21,248</u>
Total long-term compensated absences	<u>195,296</u>
Less: Current Portion	<u>(13,972)</u>
Total long-term compensated absence	<u>\$ 181,324</u>

Sick leave is payable only upon termination and is stipulated by the particular union contract covering each employee group. The ferry group contracts allow payment of 50% of sick leave up to 960 hours of accumulated time and 100% of sick leave after 960 hours of accumulated time. Employees also have the option to sell back any hours over 960 hours to the Authority prior to year end. The Authority allocates a portion of the interest earned on the accrued balances to each ferry employee's sick leave balance as an additional benefit.

## NOTE 6 - NOTE PAYABLE

The Authority entered into a loan contract with the State of Michigan Department of Transportation on April 20, 2000. The loan is secured by future Michigan Transportation Fund payments to the Authority. The loan, in the amount of \$381,000, is payable in annual installments of \$46,974 for ten years, including interest at the rate of 4%. The first payment was due on May 3, 2001. Activity of the note payable for the year ended September 30, 2004 is summarized as follows:

Balance, October 1, 2003	\$ 281,939
Deletions (payments)	<u>(35,697)</u>
Balance, September 30, 2004	<u>246,242</u>
Less: Current Portion	<u>37,124</u>
Long-term Portion	<u>\$ 209,118</u>

Maturities of principal and interest over the remaining life of the note payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 37,124	\$ 9,850	\$ 46,974
2006	38,609	8,365	46,974
2007	40,154	6,820	46,974
2008	41,760	5,214	46,974
2009	43,430	3,544	46,974
2010	<u>45,165</u>	<u>1,808</u>	<u>46,973</u>
Total	<u>\$ 246,242</u>	<u>\$ 35,601</u>	<u>\$ 281,843</u>

## NOTE 7 - CAPITAL AND OPERATING GRANTS

Property and equipment purchased with capital grant funds must be used for mass transportation purposes as follows:

- Urban mass transportation capital grant purchases must be used for ten years in the case of buses and items of equipment costing less than \$50,000, and twenty years for facilities and equipment costing \$50,000 or more.
- Michigan State Highway Commission grant purchases must be used during the useful life of all items of equipment and facilities.

**NOTE 7 - CAPITAL AND OPERATING GRANTS (Continued)**

The Authority currently subleases two (2) buses from the Michigan Department of Transportation (MDOT). The MDOT forgives the Authority the lease payments on these buses over the life of the lease term. Title to the buses remains with the lesser of the lease transaction with the MDOT.

If the asset is withdrawn from mass transportation service, the Authority must remit its proportionate share of the fair market value to the government.

Capital grant activity for the current fiscal year is summarized on the schedule of expenses by contract and general operations contained in these financial statements.

Currently, the Authority receives approximately 50% of its ferry operation expenses from a state appropriation. The Michigan Transportation Commission developed a transportation policy for island transportation systems encouraging privatization and subsidy reduction.

**NOTE 8 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During October 1989, the government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. In December 1989, the government joined together with other governments to form the Michigan Transit Pool, a public entity risk pool currently operating as a common risk management and insurance program for any and all transit commissions, agencies, districts, authorities, boards, and similar entities. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan Transit Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$50,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss, including Workers Compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. It is not possible to estimate the amount of such additional assessments.

The Michigan Transit Pool publishes its own financial report, which can be obtained from Deloitte & Touche, 700 Bridgewater Place, 333 Bridge Street, N.W., Grand Rapids, MI 49504-5359.

## **NOTE 9 - POST EMPLOYMENT BENEFITS**

The Eastern Upper Peninsula Transportation Authority Employees' Retirement Health Benefits Plan was established in October 1992 as an Internal Revenue Code Section 501 (c) (9) organization. The Plan provides for the payment of Eastern Upper Peninsula Transportation Authority employees' retirement health benefits.

In addition to the pension benefits described in Note 15, the Authority provides postretirement health care benefits, in accordance with State statutes, to all employees who retire from the Authority on or after attaining age 55 with at least 15 years of service or age 60 with at least 6 years of service. At September 30, 2004, 8 retirees met those eligibility requirements. The Authority pays anywhere from 37.5% to 100% of retirees health insurance premiums based on the number of years of service. The Authority contributes, on a pay-as-you-go basis, 6% of payroll, to the Plan. Expenditures for postretirement health care benefits are based on the contributions and health insurance premiums. Expenditures of \$47,585 and \$73,660 were made for post retirement health insurance premiums, and \$72,404 and \$68,875 for contributions to the plan for the years ended September 30, 2003 and 2004, respectively.

Significant actuarial assumptions used in the valuation performed as of September 30, 2002, include health inflation assumption of 4.5% a year.

## **NOTE 10 - CONTRACT CONTINGENCIES**

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under terms of the grants. Such audits could lead to reimbursements to the grantor agencies. Certain grants have not been audited and settled at September 30, 2004, and any resulting liabilities from those audits are therefore undeterminable.

## **NOTE 11 - NET ASSETS**

\$139,133 of net assets has been designated for future grants local capital match.

## **NOTE 12 - COST ALLOCATION PLANS**

The Authority has a cost allocation plan approved by Bus Transit Division, MDOT, for allocation of administrative expenses. This approved plan has been adhered to in the preparation of these financial statements.



## **NOTE 13 - FARE SURCHARGE**

The local Authority is required to provide 10% of each dollar spent on such capital grant projects. To generate the funds for this local match, a 5.0% surcharge was added to ferry ticket prices. In addition, ferry operating surpluses have been designated for capital match per agreement with the State of Michigan Department of Transportation.

## **NOTE 14- COMMITMENTS AND CONTINGENCIES**

The Eastern Upper Peninsula Transportation Authority entered into a contract with M.C.M. Marine, Inc. during fiscal year 2004. The contract was for the Sugar Island Cellular Pier Project. As of September 30, 2004, forty-one percent of the project had been completed. The project is scheduled to be completed at the beginning of the fiscal year 2005. The estimated cost to complete the project is approximately \$226,542.

## **NOTE 15- RETIREMENT PLAN**

### Description of Plan and Plan Assets

The Authority is in an agent single-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions; normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA) 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issued a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2003 is 16.78%.

## NOTE 15- RETIREMENT PLAN (Continued)

### Annual Pension Cost

During the fiscal year ended September 30, 2004, the Authority's contributions totaling \$170,375 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. Employees of the Authority are not required to contribute to the plan.

Three year trend information as of December 31, 2003 is as follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 3,426,573	\$ 3,590,386	\$ 3,888,920
Actuarial Accrued Liability	4,745,126	5,039,227	5,607,946
Unfunded AAL	1,318,553	1,448,841	1,719,026
Funded Ratio	72%	71%	69%
Covered Payroll	1,083,390	1,032,229	961,203
UAAL as a Percentage of Covered Payroll	122%	140%	179 %

## NOTE 16 - CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the Authority implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

## NOTE 16 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management’s Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

## NOTE 17 - DEFERRED REVENUE

The Authority is party to various contracts for operating and capital assistance with the State of Michigan.

The following schedule illustrates the changes in deferred revenue:

<u>CURRENT</u>	
Beginning balance	\$ 20,562
State appropriation advances	1,217,959
Eligible expenditures (reimbursable)	(1,277,203)
Miscellaneous adjustments	<u>(1,641)</u>
	<u>\$ (40,323)</u>

\*Net balance is comprised of \$2,778 deferred revenues and \$(43,101) Due From State of Michigan (see note 18) attributable to bus and ferry operations respectively.

## NOTE 18 - DUE FROM STATE OF MICHIGAN

The Authority is party to various contracts for operating and capital assistance with the State of Michigan. A summary of the amount owing to the Authority as of September 30, 2004, is as follows:

Net eligible ferry expenditures exceeding state appropriation	
Advances for fiscal year 2004 and 2003 (Note 17)	<u>\$ 43,101</u>
Total	<u>\$ 43,101</u>

## **Required Supplemental Information**

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# Eastern Upper Peninsula Transportation Authority

## Schedule I Statement of Revenues and Expenses by Division For the Year Ended September 30, 2004

	Chippewa Rural Bus	Luce Rural Bus	Drummond Island Ferry	Sugar Island Ferry	Neebish Island Ferry	Admin.	EUPTA Local	Total
<b>Operating Revenues:</b>								
Fares	\$ 116,221	\$ 21,385	\$ 612,827	\$ 404,515	\$ 65,238	\$ -	\$ -	\$ 1,220,186
<b>TOTAL OPERATING REVENUES</b>	<b>116,221</b>	<b>21,385</b>	<b>612,827</b>	<b>404,515</b>	<b>65,238</b>	<b>-</b>	<b>-</b>	<b>1,220,186</b>
<b>Operating Expenses:</b>								
Salaries	168,392	50,829	446,338	388,271	3,911	150,355	-	1,208,096
Fringe benefits	85,210	40,833	255,845	236,790	2,651	87,230	-	708,559
Services:								
Legal and accounting	1,150	-	15,647	11,028	3,297	41,166	-	72,288
Advertising fees	141	49	133	219	11	-	-	553
Purchased transportation services	-	-	-	-	108,222	-	-	108,222
Other services	496	3	638	243	214	270	-	1,864
Materials and supplies consumed:								
Fuel and lubricants	40,329	3,953	174,341	62,277	2,093	-	-	282,993
Tires and tubes	2,481	143	78	55	12	-	-	2,769
Other materials and supplies	9,466	2,211	41,026	10,559	1,117	3,592	-	67,971
Utilities	2,058	1,975	2,458	398	278	3,258	-	10,425
Casualty and liability costs:								
Premiums for public liability and property damage insurance	19,488	2,169	60,963	23,956	9,431	1,094	-	117,101
Other casualty and liability costs	-	-	913	125	-	-	-	1,038
Building maintenance and repairs	5,025	-	10,733	7,573	3,417	3,548	-	30,296
Travel and auto expenses	5	-	3,929	2,234	588	11,718	-	18,474
Miscellaneous expenses:								
Advertising/promotion media	387	18	4,105	3,445	501	-	-	8,456
Other miscellaneous expenses	(53)	198	5,455	3,816	367	850	622	11,255
Depreciation	47,068	7,444	290,507	109,588	42,878	178	(537)	497,126
Interest expense	-	-	11,551	1,036	-	-	-	12,587
Administrative overhead	49,950	6,638	132,339	93,217	21,115	(303,259)	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>431,593</b>	<b>116,463</b>	<b>1,456,999</b>	<b>954,830</b>	<b>200,103</b>	<b>-</b>	<b>85</b>	<b>3,160,073</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>(315,372)</b>	<b>(95,078)</b>	<b>(844,172)</b>	<b>(550,315)</b>	<b>(134,865)</b>	<b>-</b>	<b>(85)</b>	<b>(1,939,887)</b>
<b>Non-Operating Revenues (Schedule 2)</b>								
Local	21,042	2,875	-	-	-	-	11,543	35,460
State and Federal:								
Rural Transit Assistance Program	1,849	-	1,187	378	86	-	-	3,500
Project Zero Operating	-	51,390	-	-	-	-	-	51,390
Section 5311 Operating	41,823	6,310	-	-	-	-	-	48,133
ACT 51 Appropriation Adjustments	-	-	(6,729)	(4,739)	(1,073)	-	-	(12,541)
ACT 51 Appropriation	161,295	24,336	590,832	421,945	78,570	-	-	1,276,978
Capital Grants	18,386	-	73,868	240,614	1,512	-	-	334,380
Capital Match	-	-	30,453	(2,181)	3,867	-	-	32,139
<b>TOTAL NON-OPERATING REVENUES</b>	<b>244,395</b>	<b>84,911</b>	<b>689,611</b>	<b>656,017</b>	<b>82,962</b>	<b>-</b>	<b>11,543</b>	<b>1,769,439</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (70,977)</b>	<b>\$ (10,167)</b>	<b>\$ (154,561)</b>	<b>\$ 105,702</b>	<b>\$ (51,903)</b>	<b>\$ -</b>	<b>\$ 11,458</b>	<b>\$ (170,448)</b>

# Eastern Upper Peninsula Transportation Authority

## Schedule II Schedule of Non-Operating Revenues For the year ended September 30, 2004

### Local Operating Assistance:

#### Counties:

Chippewa County	\$ 16,042
Luce County	2,875

Total County Operating Assistance	18,917
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#### Other local:

Capital Match	32,139
Interest	11,389
Proceeds from sale of assets	4,460
Other	694

Total other local assistance	48,682
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Total Local Operating Assistance	67,599
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### State Operating Assistance:

Operating Assistance - Bus	185,631
Operating Assistance - Ferry	1,091,347
Operating Assistance - Ferry Adjustments	(12,541)
Capital Grants	334,380
Project Zero Operating	51,390

Total State Operating Assistance	1,650,207
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### Federal Operating Assistance:

Rural Transit Assistance Program (RTAP)	3,500
Section 5311 Operating	48,133

Total Federal Operating Assistance	51,633
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TOTAL NON-OPERATING REVENUES	\$ 1,769,439
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# Eastern Upper Peninsula Transportation Authority

## Schedule III

### Schedule of Expenses by Contract and Act 51 Appropriation For the year ended September 30, 2004

	Project Zero 2002-0035Z6	Ferry Operating Assistance ACT-51	Ferry Capital 2004-0054	Ferry Capital 2003-0356	Ferry Capital 2001-0291	Bus Capital 2000-0035 72596A	Bus Capital 2002-0035 Z4 58429A	Bus Capital 2002-0035 Z9 74667A	Bus Capital 2001-0907	Bus Operating 2002-0035Z3	Bus Operating Assistance ACT-51	Totals
Labor	\$ 21,008	\$ 838,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,005	\$ 219,222	\$ 1,102,755
Fringe benefits	22,545	495,286	-	-	-	-	-	-	-	13,802	126,045	657,678
Services:												
Legal and Accounting	-	29,972	-	-	-	-	-	-	-	126	1,150	31,248
Advertising Fees	38	363	-	-	-	-	-	-	-	21	189	611
Purchased Transportation Services	-	108,222	-	-	-	-	-	-	-	-	-	108,222
Other Services	795	1,095	-	-	-	-	-	-	-	55	498	2,443
Materials and supplies consumed:												
Fuel and lubricants	2,853	238,711	-	-	-	-	-	-	-	4,849	44,282	290,695
Tires and tubes	348	145	-	-	-	-	-	-	-	287	2,624	3,404
Other materials and supplies	1,461	52,702	-	-	-	-	-	-	-	1,279	11,677	67,119
Utilities	828	3,134	-	-	-	-	-	-	-	442	4,033	8,437
Casualty and liability costs:												
Premiums for public liability and property damage insurance	1,212	94,350	-	-	-	-	-	-	-	2,371	21,657	119,590
Other casualty and liability costs	16	1,038	-	-	-	-	-	-	-	-	-	1,054
Building maintenance and repairs	-	21,723	-	-	-	-	-	-	-	550	5,025	27,298
Travel and auto expenses	183	6,751	-	-	-	-	-	-	-	1	5	6,940
Miscellaneous expenses:												
Advertising/promotion media	-	8,051	-	-	-	-	-	-	-	44	405	8,500
Other miscellaneous expenses	102	9,493	-	-	-	-	-	-	-	17	143	9,755
Depreciation	-	385,923	-	-	-	-	-	-	-	8,356	76,312	470,591
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	56,725	84,506	157,104	1,467	27,614	3,490	3,474	-	-	334,380
Administrative overhead	-	246,671	-	-	-	-	-	-	-	6,196	56,588	309,455
 TOTAL OPERATING EXPENSES	 51,389	 2,542,150	 56,725	 84,506	 157,104	 1,467	 27,614	 3,490	 3,474	 62,400	 569,855	 3,560,174
Less:												
Capital Outlay	-	-	56,725	84,506	157,104	1,467	27,614	3,490	3,474	-	-	334,380
Ineligible Expenses	51,389	359,003	-	-	-	-	-	-	-	14,263	130,257	554,912
 Totals	 -	 2,183,147	 -	 -	 -	 -	 -	 -	 -	 48,137	 439,598	 2,670,882

**Eastern Upper Peninsula Transportation Authority****Schedule IV****Schedule of Net Eligible Cost Computations  
For the year ended September 30, 2004**

	Federal Section 5311 2002-0035Z3	ACT-51 Appropriation		
		Bus Operating	Ferry Operating	Total
Total operating expenses	\$ 569,855	\$ 569,855	\$ 2,542,150	\$ 3,112,005
Ineligible expenses	130,257	130,257	359,003	489,260
Net eligible costs	439,598	439,598	2,183,147	2,622,745
Reimbursement rates	10.95%	42.23%	50.0%	-
Calculated reimbursement	\$ 48,137	\$ 185,646	\$ 1,091,574	\$ 1,277,220



# Eastern Upper Peninsula Transportation Authority

## Schedule V

### Schedule of Mileage Data, Vehicle Hours and Passengers (Unaudited)

For the year ended September 30, 2004

	<u>Passengers</u>	<u>Public Transportation Mileage</u>	<u>Vehicle Hours</u>
DEMAND RESPONSE:			
First Quarter	11,963	75,452	3,067
Second Quarter	13,365	78,664	3,254
Third Quarter	11,888	75,610	3,288
Fourth Quarter	<u>10,971</u>	<u>76,521</u>	<u>3,245</u>
TOTALS	<u><u>48,187</u></u>	<u><u>306,247</u></u>	<u><u>12,854</u></u>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**  
**AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF**  
**FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE**  
**WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Eastern Upper Peninsula Transportation Authority  
4001 I-75 Business Spur  
Sault Ste. Marie, MI 49783

We have audited the financial statements of the business-type activities of the Eastern Upper Peninsula Transportation Authority as of and for the year ended September 30, 2004, which collectively comprise the Eastern Upper Peninsula Transportation Authority's basic financial statements and have issued our report thereon, dated December 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Eastern Upper Peninsula Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Eastern Upper Peninsula Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Eastern Upper Peninsula Transportation Authority in a separate letter dated December 8, 2004.

This report is intended solely for the information and use of the Board of Directors of Eastern Upper Peninsula Transportation Authority, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 8, 2004



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Board of Directors  
Eastern Upper Peninsula  
Transportation Authority  
4001 I-75 Business Spur  
Sault Ste. Marie, MI 49783

We have audited the financial statements of the E.U.P. Transportation Authority for the year ended September 30, 2004, and have issued our reports thereon dated December 8, 2004. Professional standards require that we provide you with the following, information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the E.U.P. Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of E.U.P. Transportation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the E.U.P. Transportation Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the E.U.P. Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus. The Authority did implement the provisions of GASB Statement No. 34 on October 1, 2003.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the E.U.P. Transportation Authority's financial reporting process (that is, cause financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the E.U.P. Transportation Authority, either individually or in the aggregate indicate matters that could have a significant effect on the E.U.P. Transportation Authority's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the E.U.P. Transportation Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the E.U.P. Transportation Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

#### **Payroll**

It was noted during payroll testing that many employees do not have updated W-4’s. Although it is not required by law, it is recommended that W-4’s be updated every two or three years.

Status: The Authority is in the process of updating employee’s W-4’s.

It was also noted that one employee selected for testing did not have an approval signature on her time sheet. It is recommended that all time sheets be signed by an authorized individual.

Status: All time sheets will be signed by an authorized individual.

#### **Union Contracts**

The Authority employees employed under the union contract for the non-ferry group have worked since January 31, 2004 without a union contract. It is recommended a contract be signed into effect as soon as possible.

### **Purchasing Policy**

The Authority does not currently have a procurement/purchasing policy. We recommend the Authority adopt such a policy.

Status: The Authority is currently working on implementing a policy.

### **Other Matters**

At year end an investigation began regarding a possible wrongdoing by an Authority employee. The investigation is ongoing and as of the date of our report the courts have not reached a conclusion.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the information and use of management and the Board of Directors of Eastern Upper Peninsula Transportation Authority, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

December 8, 2004